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National Association of Purchasing Management

Report On Business®

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Purchasing Index Slips to 51.9%

New Orders & Production Growth Slows

Prices Higher By Over 9 to 1 Ratio

Analysis by the Business Survey Committee; chairman, Robert J. Bretz, C.P.M., director of materials management, Pitney Bowes, Inc.

The *Report on Business* is published monthly by the National Association of Purchasing Management, based on data compiled from replies to questions asked of purchasing managers in some 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification category, based on each industry's contribution to national income.

February Report

The economy continued to grow in February but slowed from the sharply increased growth rate registered in January, say the nation's purchasing managers in their latest **Report on Business.** The rate of growth in new orders and production also slowed somewhat from January. However, production remained vigorous as more than three times as many members reported it better compared to worse. Vendor deliveries improved slightly but members reported steel supplies were tight as U.S. Steel gradually resumed production. An equal number of members reported inventories higher and lower. This has not happened since August 1984. For the sixth consecutive month more purchasers reported paying higher rather than lower prices, this time by a ratio of 9 to 1.

The report was issued today by Robert J. Bretz, C.P.M., chairman of the National Association of Purchasing Management's Business Survey Committee and director of materials management, Pitney Bowes, Inc. Mr. Bretz said, "The economy continued to expand in February but at a more subdued rate than in January. The slowing in new orders should not be significant enough to dampen prospects for a respectable first quarter."

The **Purchasing Managers' Composite Index** declined to 51.9% from 55.8% in January. Nevertheless, February is the seventh consecutive month this leading indicator has registered above 50%. A reading above 50% generally indicates that the economy is in an expanding phase: below 50%, that the economy is generally declining. The index is based on analysis by the U.S. Department of Commerce. Except for this index, the information in this report is not seasonally adjusted.

Net Difference

In each category measured, this report shows a net difference. It is the difference between the number of responses in the positive direction (higher, better, faster) and the negative direction (lower, worse, slower). Analysis of the month-to-month difference compares the rate of change.

Employment

Employment in February was virtually unchanged from January which was higher than the last quarter of 1986. The rate of decline in employment in January and February is the lowest since May 1986.

Employment %	Higher	Same	Lower	Net Differ.
February	12	68	20	– 8
January	13	67	20	– 7
December	9	62	29	–20

Buying Policy

Lead times for production materials lengthened slightly in February as the number of members reporting lead times of 30 days or less decreased to 57% from 59% in January. Lead times for capital expenditures were essentially unchanged from January as the number of members reporting lead times of six-months-and-longer remained at 57% and three to six months remained at 18%. Lead times for maintenance, repair, and operating (MRO) supplies increased somewhat as only 85% reported lead times of 30 days or less, down from 88% in January.

Production Materials %	Hand to Mouth	30 Days	60 Days	90 Days	6 Months and Longer
February	17	40	22	15	6
January	17	42	25	10	6
December	17	37	27	13	6
MRO Supplies %					
February	45	40	9	5	1
January	50	38	6	5	1
December	49	37	8	5	1
Capital Expenditures %					
February	13	4	8	18	57
January	12	3	10	18	57
December	13	7	9	19	52

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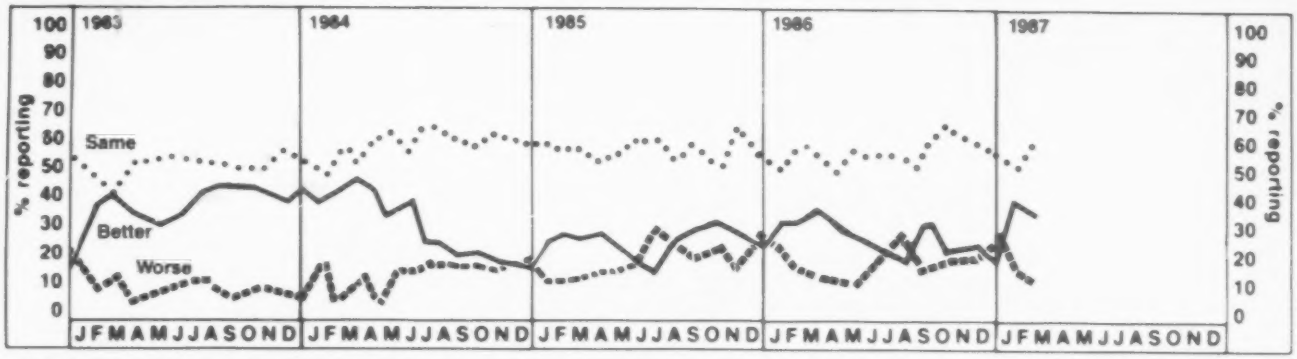
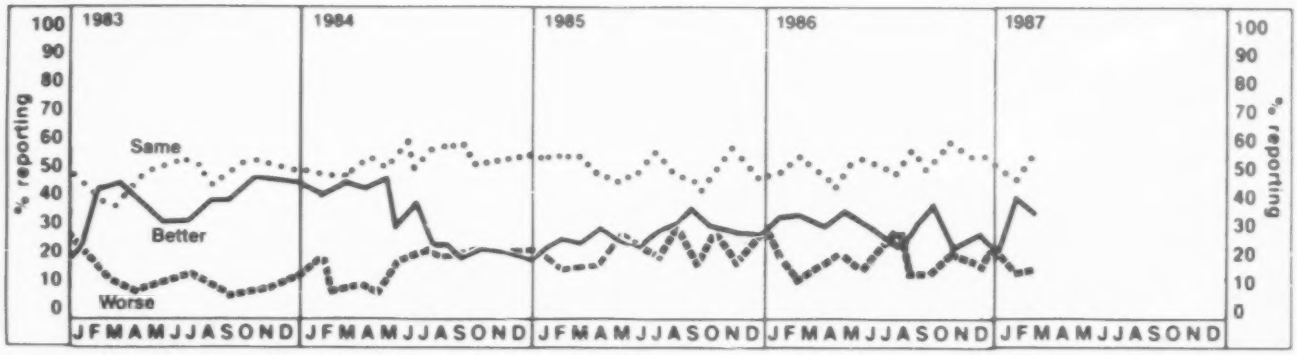
Production



Production was strong in February although not as vigorous as January. The 31% reporting better production was more than three times those reporting worse. This is the second consecutive month where the net difference between better and worse was significant.

Production %	Better	Same	Worse	Net
February	31	60	9	+22
January	37	51	12	+25
December	19	56	25	− 6

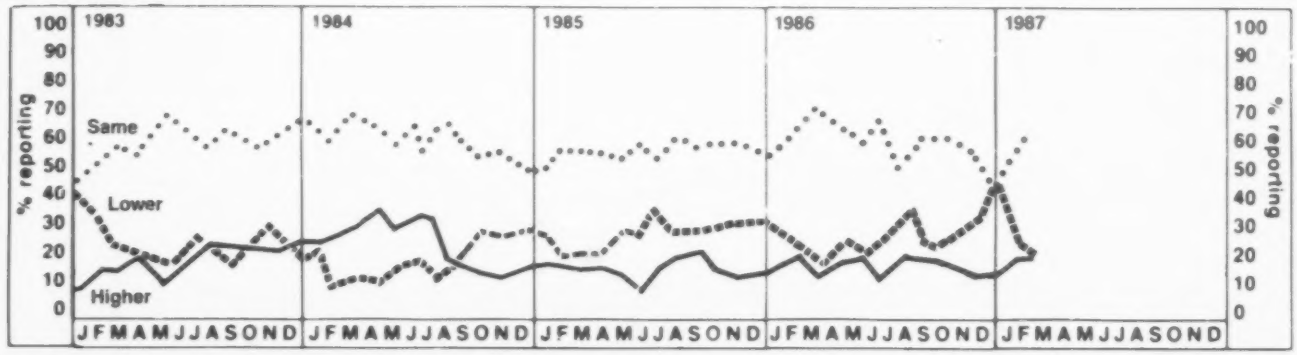
New Orders



New orders slowed in February. Nevertheless, the 33% of members reporting new orders as better is more than twice the number reporting than worse (16%) and virtually assures a good first quarter.

New Orders %	Better	Same	Worse	Net
February	33	51	16	+17
January	40	45	15	+25
December	22	55	23	− 1

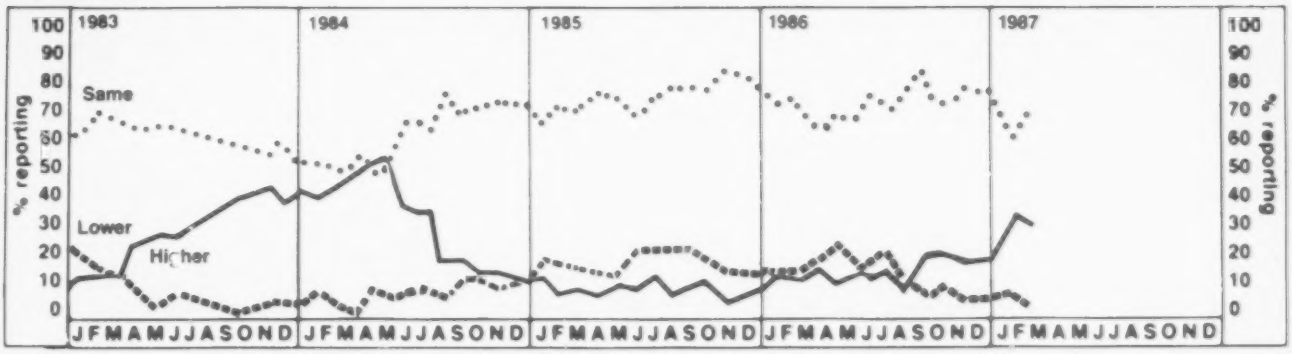
Inventories



Purchasers appeared to have ended their reduction in inventories, at least temporarily. After 29 consecutive months of declining inventories, the same number of members (19%) reported an increase and decrease. Some members indicated buying ahead to reduce the effects of price increases.

Inventories %	Higher	Same	Lower	Net
February	19	62	19	0
January	19	56	25	− 6
December	12	47	41	−29

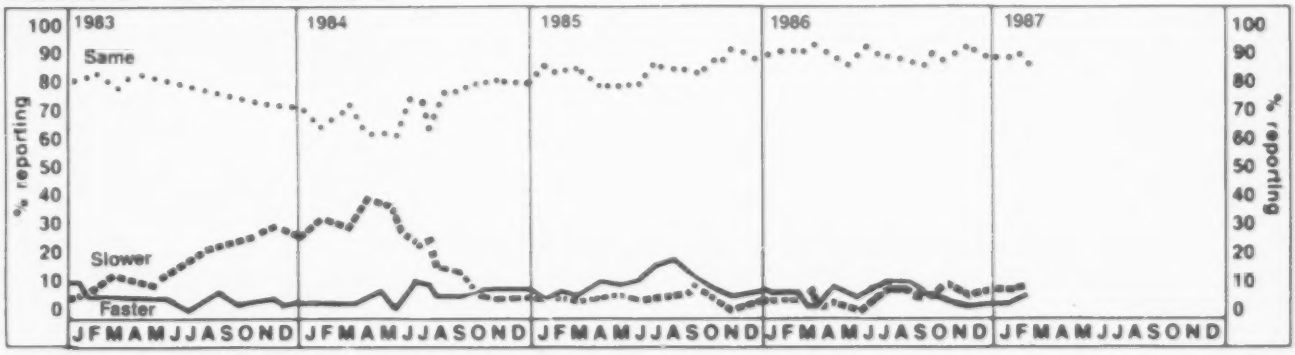
Prices



Purchasers continued to report paying more for the items they purchase. In February, 28% reported higher prices and only 3% reported lower prices. The 3% indicating lower prices is the lowest since May 1984 (also 3%).

Prices %	Higher	Same	Lower	Net
February	28	69	3	+25
January	32	62	6	+26
December	18	77	5	+13

Vendor Deliveries



Vendor deliveries were slightly better than the past two months. Although the number of members reporting slower delivery performance increased to 9% from 8% in the last two months, the number reporting faster deliveries increased more, to 7% from January and December's 4%.

Vendor Deliveries %	Faster	Same	Slower	Net
February	7	84	9	− 2
January	4	88	8	− 4
December	4	88	8	− 4

Specific Commodity Changes

No significant items were reported down in price in February; since April 1984 this occurred only once before, in December 1986. Titanium dioxide was reported in short supply in February, the tenth time in the past twelve months. Corrugated shipping containers were reported higher in price for the tenth time in the last eleven months. Steel, fuel oil, gasoline, and printing paper were reported up in price for the second consecutive month. Also reported as higher prices in February were aluminum and benzene.

UP in Price: Corrugated shipping containers, printing paper, aluminum, steel, fuel oil, gasoline, and benzene (used as a chemical solvent and in motor fuels)

DOWN in Price: None

In SHORT Supply: Titanium dioxide (a lead free pigment used heavily as a whitener in coatings and other industrial applications)

The National Association of Purchasing Management's *Report on Business* records the actual changes and rates of change in five important categories of data: production, new orders, employment, inventories and vendor deliveries. These five components, as reported, are not adjusted to compensate for seasonal variations.

Economists have devised a variety of formulas to compensate data for seasonal variations. N.A.P.M. cooperates with the U.S. Department of Commerce, which prepares the monthly Purchasing Managers' Composite Index for publication by N.A.P.M. The Department of Commerce adjusts the five above-mentioned components of the *Report on Business*, applies various weights to each and combines them into a single index number. The Composite Index is based on analysis by the U.S. Department of Commerce, and is the only part of the report adjusted for seasonal variations.

Note: The next issue of the *Report on Business* will be available April 6, 1987.